

# **Department of Commerce Report On Distinguishing Performance Through Awards December 2004**

## **BACKGROUND**

The Department of Commerce (DOC) embraces a high-performance, results-driven culture to motivate its employees to achieve mission objectives. With the advent of the President's Management Agenda (PMA), there has been an even greater focus on linking organizational and individual performance objectives to the Department's strategic mission and goals. The PMA outlines the top-five management priorities of President Bush. Although the Government Performance and Results Act of 1993 provided the initial mandate for certain Executive Branch agencies to submit to Congress a strategic plan outlining program activities and a description of related performance goals, the PMA is the strategic blueprint for how Federal agencies are held accountable for their performance in carrying forth the initiatives. Strategic Management of Human Capital, the first initiative on the PMA, outlines long-term results that encourage high-performance to be intrinsic to the culture of the Federal service. Performance incentives are expected to link to an agency's mission objectives with accountability for results that are clear and meaningful, with positive rewards for success and consequences for failure. Since the inception of the PMA, Commerce has been steadfast in its commitment to design and implement human capital solutions that support and advance the achievement of the Department's mission.

### **Overview**

The Department holds its employees accountable for performance management through the use of five performance appraisal systems:

- A Senior Executive Service (SES) Performance Management System
- A Five-Level Performance Management System for General Schedule (GS) employees
- A Two-Level (Pass/Fail) Performance Management System for GS employees
- A Pay-for-Performance system with paybanding under the Demonstration Project authority, and
- The National Institutes of Standards and Technology Alternative Personnel Management System (APMS).

Additionally, a new Performance Management System is under development for Senior Level (SL) and Senior Technical (ST) employees. Approximately 30% of the workforce is on a five-level system, 57% of employees are on a two-level system, and 13% are participating in the Demonstration Project.

Beginning in FY05, Commerce has implemented plans to calibrate and improve its performance management system, eliminating the two-level system from our inventory of performance management tools by FY06, designing and implementing a unified, multi-level system Department-wide, and continuing to test, expand and extend paybanding concepts through the use of the Demonstration Project authority.

Anticipated changes are targeted to leverage legislative flexibilities and align with new OPM regulations on pay-for-performance systems, which will be released at mid-year. These regulations will likely make it clear to agencies that implement pay for performance systems their responsibility to ensure that those systems incorporate sufficient rating levels to make meaningful distinctions in performance.

### **Performance Management Culture**

Employees' perceptions of how well they understand the linkage of their work to the overall organization and whether they are rewarded based on how well they perform their jobs, was measured in both the OPM FY02 Federal Human Capital Survey (FHCS) and a study derived from the FHCS titled, "Best Places to Work in the Federal Government". When asked, "I know how my work relates to the agency's missions and goals, 79.9% of DOC employees responded positively to this question, compared to the government overall rating of 79.8%. However, DOC ranked considerably higher at 60.3% compared to the government overall 52.2%, when asked, "Awards in my work unit depend on how well employees perform their jobs." Additional ratings that reflect DOC employees' perceptions on being rewarded based on how well they perform their jobs, are shown below.

Table A, Comparison of DOC Employees' Perceptions vs. Government Overall

Question	DOC Employees	Government Overall
I know how my work relates to the agency's mission and goals.	79.9	79.8
Awards in my work unit depend on how well employees perform their jobs.	60.3	52.2
High-performing employees in my work unit are recognized or rewarded on a timely basis.	59.6	49.4
Employees are rewarded for providing high quality products and services to customers.	57.9	51.5
Creativity and innovation are rewarded.	54.5	49.3
My performance appraisal is a fair reflection of my performance.	64.8	64.0
Our organization's awards program provides me with an incentive to do my best.	49.2	43.8
Satisfaction with recognition received for doing a good job.	57.7	54.3

## PERFORMANCE MANAGEMENT STRATEGIES

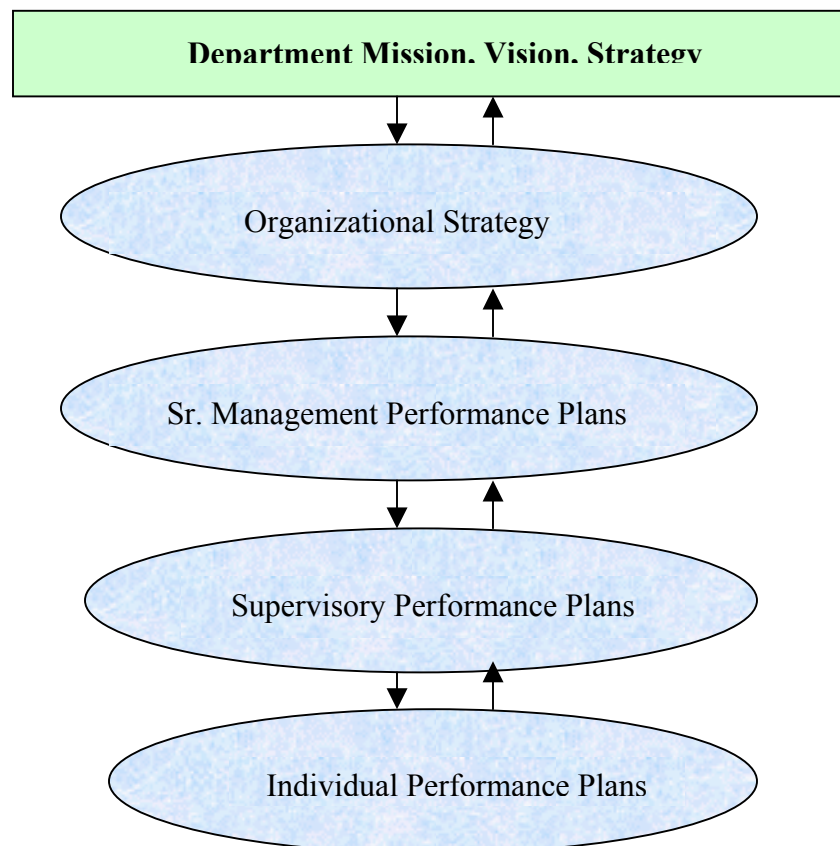
The Department has implemented a four-pronged approach to ensure a comprehensive performance management strategy. Components of the strategy include the following:

- ***Linkages to Department-wide Planning Documents***
- ***Calibrated Performance Management Systems***
- ***Automated Performance Management Tools***
- ***Continuous Performance Analyses and Feedback***

### Linkages

Performance management at the Department is predicated on the objectives of the PMA, and establishes performance goals which link to the strategic plan, annual performance plan, and bureau-specific missions and plans. This linkage is imperative to be able to effectively measure outcomes and analyze actual results and failures. DOC further links performance objectives by strategically cascading from the Department's strategic plan to organizational and individual performance plans. The Department understands the importance of linking organizational and individual performance plans to the strategic objectives of the agency to maintain a results-driven focus. The Department has made great strides in establishing performance plans that cascade from senior management to individual employees. Key aspects of the strategic plan are linked with performance elements for 100% of the SES and over 60% of remaining supervisors. A depiction of this cascading sequence is shown in the figure below.

Figure of Cascading Sequence of Performance Plans



### **Alternative Plans to Meet Bureau Needs**

In FY2000, Commerce, along with most of the Federal government, began to move away from a “one-size-fits-all” approach to performance management in an effort to provide managers with the independence and flexibility needed to manage performance in light of the changing nature of work, technological advances, emerging missions and a fierce competition for talent. Managers were given delegated authorities for performance management, a change that was deemed essential if managers were to be accountable for achieving mission objectives through employee performance.

Several bureaus adopted the 2-level rating method, with hopes of simplifying their overall performance management process, de-linking awards from ratings, fostering timely recognition by rewarding immediate to the accomplishment, and encouraging greater communications between the employee and rating official.

<b>Two-Level</b>	<b>Five-level</b>	<b>Demo/Alternative Pay System</b>
Census	Office of the Secretary	Portions of National Oceanic and Atmospheric Administration
International Trade Administration	Bureau of Industry and Security	National Institutes of Standards and Technology
Portions of NOAA	Minority Business Development Agency	Bureau of Economic Analysis
Economics and Statistics Administration	National Telecommunications and Information Agency	Technology Administration
	Economic Development Administration	Portions of Office of the Secretary
	U.S. Patent and Trademark Office	
	Office of Inspector General	

In this era of decentralized performance management, Commerce’s experience with two-level systems is one with mixed reviews. They reported being successful in rewarding performance as it occurred. However, in other discussions, coupled with analyses of performance and award distributions, Commerce leadership, supported by OPM guidance concluded that our diverse systems were not having the desired effect of driving organizational excellence and high performance. All indications pointed toward needed reforms, new pay tools, and training to assist managers in defining, measuring, rewarding, and aligning individual and organizational performance.

In Q1 FY05, the CFO Council and the HR Council were notified that DOC would move to a unified, multi-level performance management system for all bureaus by FY06 with the exception of those bureaus in the Demonstration Project and the NIST Alternative Personnel Management System. When implemented, the new performance management system will strengthen the appraisal system resulting in more meaningful distinctions in performance.

### **Automated Performance Management Tools**

The Department implemented several web-based tools to provide broad and consistent access to information on performance and awards, including a Performance Management Handbook and the Commerce Performance and Awards System (ComPAS), which was piloted to track all aspects of performance management from the creation of elements and standards to the summary rating. ComPAS, which links individual performance to organizational performance, was piloted during FY03 and evaluated in FY04.

The pilot of ComPAS aligned individual performance with organizational needs, managed poor performance and provided timely feedback and financial incentives to drive individual performance. Although the ComPAS system had several features to support the alignment of individual performance with organizational performance, such as a record of an individual's performance history, and award and recognition history, the final evaluation by the system users and OHRM indicated the system design was not practicable Department-wide.

Commerce leveraged the knowledge gained through the ComPAS pilot, to identify and procure a second automated performance management system. This system, PerformPlus is currently being piloted in the Office of the Secretary, Office of Human Resources Management. The new plans are linked to the strategic plan and include organizational and functional performance metrics linked to individual performance. Commerce has included the bureaus in the pilot process to establish a new requirements document that will have Government-wide application and will leverage lessons learned from the two Commerce pilots.

Commerce also deployed human capital flexibilities through the Demonstration Project another strategy. Commerce now has five years of evaluation data that confirm improved performance and retention rates. Through the utilization of pay-for-performance, Commerce can validate distinctions between high and low performers, and appropriately reward high performers. Based on the success of those organizations participating in the Demonstration Project, Commerce requested and received approval for expansion and extension of Demonstration Project authority for the Office of the Secretary and other Commerce bureaus.

Bureaus reported that 100% of their supervisory plans also cascaded from the SES plans. The Department reviewed a representative sample of the SES and bureau plans to confirm alignment and a distinction between high and low performance. Additionally, organizations established operating plans and unit metrics, which are linked to individual performance plans at the non-supervisory levels. For those bureaus in the Demonstration Project using a two-level system which incorporates an extensive point system, high performance will be recognized through the awards system. For those employees on

Pass/Fail plans that are not in the Demonstration Project, meaningful distinctions in performance are also recognized through the awards programs. As one of its Proud to Be goals in FY05, Commerce directed those bureaus on two-level systems to begin to develop multi-level plans beginning with the June performance cycle. All bureaus will operate under multi-level systems by the end of FY05.

### **Continuous Analysis of Performance Data and Feedback**

In order to ensure DOC distinguishes performance through awards, awards data were collected and analyzed for fiscal years (FYs) 2002 and 2003 workforce. Data were analyzed by program (demonstration project, general workforce appraisal system, and 2-level pass/fail system), rating level (e.g., Unsatisfactory, Commendable, Eligible), and award amount (e.g., \$0, 1-500, 501-1000). Descriptive statistics such as means (averages) and standard deviations were calculated using a spreadsheet program.

### **Key Findings**

#### **Comparison of the Ratings Distribution**

- In FY03, approximately 80% of the members of the SES received ratings of “Outstanding.” This number has decreased significantly in FY04. The preliminary distribution of “Outstanding” ratings for FY04 for this same population is 49%. The Departmental Executive Resources Board (DERB) has been at the forefront in ensuring that the highest performers are identified and appropriately recognized.
- Preliminary data for FY04 employees’ ratings are now available. The initial performance data from 2004 indicates continuation of the favorable trend established in 2003. As the table above shows, higher-rated performers are clearly receiving more awards, and, save for a few anomalies, low-rated performers are not receiving monetary awards (Table B).

Table B

	<b>2004</b>		
	<b>Rating Level</b>	<b>Count</b>	<b>Average Award</b>
<b>Two-Level</b>	Ineligible	2	225.00
	Eligible	7735	1442.56
	(Total)	7737	
<b>Five-Level</b>	Unsatisfactory	*4	3479.50
	Marginal	0	0.00
	Fully Successful	95	1325.79
	Commendable	1030	2762.45
	Outstanding	3851	4694.09
	(Total)	4980	4229.35
	*All cases from PTO		

- For both 2002 and 2003, significantly less than two-thirds of employees were rated as “Outstanding” in the five-level system (Table C).

Table C

		<b>2002</b>			<b>2003</b>	
	Rating Level	Count	Percentage		Count	Percentage
Two-Level	Ineligible	197	0.86%		163	0.74%
	Eligible*	22588	99.14%		21852	99.26%
	(Total)	22785			22015	
Five-Level	Unsatisfactory	56	0.62%		86	0.96%
	Marginal	90	1.00%		73	0.81%
	Fully Successful*	2314	25.61%		2583	28.73%
	Commendable	1982	21.94%		1906	21.20%
	Outstanding	4593	50.84%		4343	48.30%
	(Total)	9035			8991	
* Employees with missing ratings were presumed "Eligible" or "Fully Successful," as appropriate						

#### Comparison of Awards and Performance

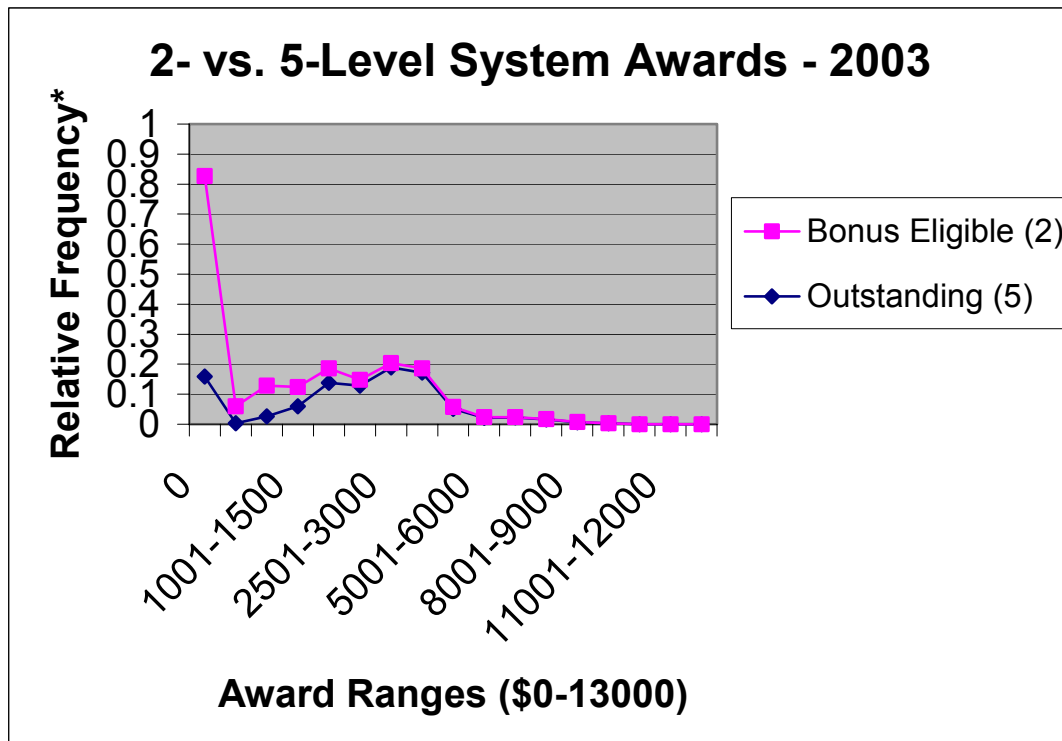
- The average monetary award under the Demonstration Project was about \$1800 per employee, per year for the two years, versus about \$2700 per employee, per year under the five-level system (Table D).

Table D

		<b>2002</b>			<b>2003</b>	
	Rating Level	Count	Average Award		Count	Average Award
Two-Level	Ineligible	3	200		1	425
	Eligible*	5510	1833		5935	1785
Five-Level	Unsatisfactory	15	1372		18	2198
	Marginal	17	1872		11	1528
	Fully Successful*	1543	2312		1846	2520
	Commendable	1066	2078		1133	2413
	Outstanding	3860	2932		3650	2945

- Superior employee performance is being identified in the Demonstration Project, as shown by the Bonus-Eligibles’ approximation of the awards data for the top level (Outstanding) of the five-level system. For example, the two sets of ratings had a correlation of .89 for 2003.

### Comparison of Distribution of Awards

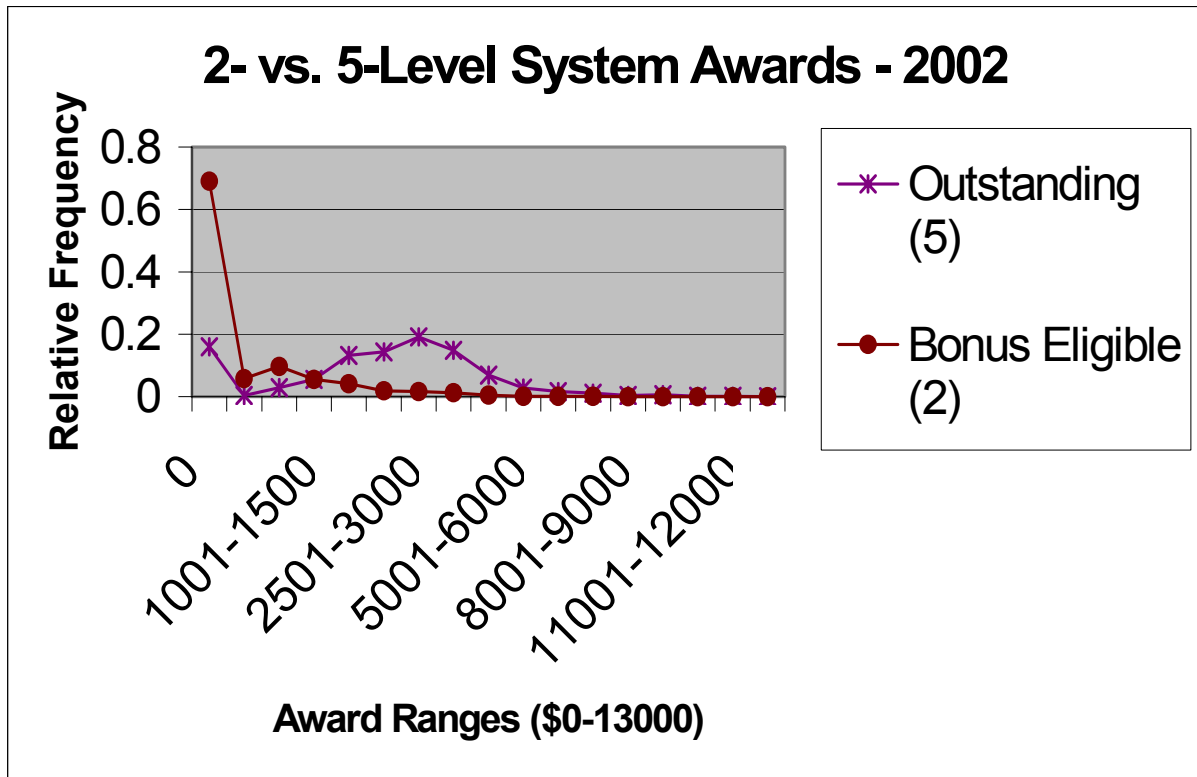


\* Relative Frequency is the proportion of employees at an award range compared to all others at that range. There were 21,852 Bonus Eligibles and 4343 Outstandings for FY 2003.

- 1) The overlap of the lines in the graph illustrates the near-perfect agreement in ratings between the two-level (“Bonus Eligible”) and five-level “Outstanding” rating systems (correlation = .89),
  - 2) This overlap means that high performing employees received similar award amounts in both systems, and that
  - 3) Managers are making very much the same distinctions in high performance in both systems.
- Although the occurrences were minimal (<.2%), anomalies occurred in the data (e.g., employees rated as “Unsatisfactory” receiving awards). These anomalies were primarily due to off-cycle awards, as well as gainsharing awards, at the Patent and Trademark Office (PTO) and the Census Bureau. For example, PTO employees received recommendations for gainsharing awards for Outstanding performance in FY02, and subsequently received an unsatisfactory performance rating in FY03. However, the awards were processed on 11/30/03 (FY03).



In FY2002, awards were “de-linked”, in that they were event driven throughout the entire year. For example an employee might have received a special act award for completing a phase of a project early. The organizational strategy was to reward outstanding performance as it occurred, rather than granting a large bonus at the end of the year. This is why the majority of awards were at lower levels: supervisors preferred to give lesser amounts of money throughout the year as performance warranted.



Relative Frequency was computed across the same award ranges as for 2003. Data reflect a “de-linked” performance award system for 2002.

## OUR NEXT STEPS

The Department will create an efficient and effective automated system with a single rating approach for the Department. The automated system is currently being piloted in the Office of the Secretary, Office of Human Resources Management and integrates organizational goals and Individual Development Plans with the individual performance planning process. This system will support managers in assessing and rating differing levels of performance. A cross-functional management team has developed the draft business case for a Department-wide deployment of a new automated solution for performance management, and has begun the work of developing a unified performance appraisal plan for the Department.